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Approved For Release 2005/04/27 : CIA-RDP77M00144R001100070035-8

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:

SSA-DDA
7 D 16 Hqs

EXTENSION

NO.

DATE

13 August 1975

TO: (Officer designation, room number, and building)

DATE

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

13 AUG 1975

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Attached is a note which I believe is self-explanatory, and a few attachments. I have sent copies of the package to Personnel and Finance so they won't duplicate anything. They will, however, respond to OLC if they have additional information.

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3-62610 USE PREVIOUS
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NOTE FOR: []

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An Interagency Committee has been established to review the entire range of allowances paid to U.S. Government employees overseas. The Committee is chaired by John Thomas, Assistant Secretary of State for Administration. [] is the CIA representative. There are members from all U.S. agencies with overseas establishments. The charter of this committee includes a review of the specific problems discussed in the OMB memo to OLC.

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You will find attached several documents which have been developed for [] for his use in the Interagency Committee, and for the undersigned as CIA member of the Subgroup of the Interagency Committee to review the overseas housing programs. I have also attached, purely for background purposes, copies of two or three documents which have been submitted by other agencies on the same subject.

Please note that our "added compensation" paper deals only with the housing allowance. Another Subgroup of the Interagency Committee will deal with the other allowances. However, the housing allowance is the one which has created the most difficulty. Additional points to be made on both the added value and taxability aspects are:

1. It is agreed that there is added value in allowances such as the post allowance, which is a recruitment and retention allowance. This allowance is already taxable.
2. There is no added value in cost-of-living allowances, since they are intended to compensate the individual for increased cost of living at overseas posts as compared to the Washington area. Since there is no added value, they are NOT now taxable.

One recommendation which is being made by all agencies, and which should be made in this context, is that, inasmuch as the whole matter is now being studied in depth by a very high level Interagency Committee, there should be no precipitate action until the review has been completed and recommendations have been submitted to OMB, This should be by the end of the year. One small group in Treasury is pushing the taxability policy, but the rest of the agencies are solidly against it.

If you need more, let me know.



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Atts

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:		EXTENSION	NO.	
Legislative Counsel 7D35 HQ		6136	DATE 12 August 1975	
TO: (Officer designation, room number, and building)	DATE		OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
	RECEIVED	FORWARDED		
1. DDA 7D18 HQ	12 AUG 1975		<div>25X1</div> <p>An omnibus tax bill, H.R. 17488 introduced in the 93rd Congress, would have subjected allowances paid to Government employees working overseas to the Federal income tax. No similar proposals have yet been introduced in the 94th Congress, but apparently the House Ways and Means Committee is scheduled to consider such an issue this fall. The attached letter represents the State Department's position on this question.</p> <p>OMB has referred the letter to us for specific comments on these two points: (1) What justification is there for exempting the allowances of Federal Government employees working overseas and not exempting the allowances of U.S. citizens employed overseas by private enterprise? (2) What additional arguments are there that overseas allowances do not reflect additional compensation? These two points are discussed on page 3 of Secretary Kissinger's letter. OMB's feeling is that it will be an up-hill battle to convince the Congress that these allowances should not be taxed. Therefore, they need additional arguments to reinforce the Administration's position.</p> <p>The Director wrote James Lynn, Director of OMB, on August 8th on this general subject. That letter is also attached. However, it does not fully address the specifics OMB is requesting. I need your comments on these points by August 20th. STAT Personnel and Finance have been sent separate copies of this request. Thank you.</p> <div></div> <p>Assistant Legislative Counsel</p>	
2. <i>SSA/DDA</i>				
3. <i>Note: Per...</i>				
4. <i>Have copies. Need the</i>				
5. <i>communication by 20 August.</i>				
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8 AUG 1975

Honorable James T. Lynn, Director
Office of Management and Budget
Washington, D. C. 20503

Dear Mr. Lynn:

I have a copy of Secretary Kissinger's letter to Secretary Simon of 12 July 1975 expressing concern with a provision in proposed legislation pending before the House Ways and Means Committee which would impose Federal Income taxes on certain allowances paid to Federal employees serving overseas. During the 93rd Congress, I wrote to Mr. Roy Ash on 10 December 1974 to express my concern about the adverse impact of a similar proposal on our overseas operations.

I fully endorse the views and recommendations in Secretary Kissinger's letter.

It is understood that the proposed amendment to Section 912 of the Internal Revenue Code, which currently exempts those allowances from Federal Income taxes, is being related to the proposed change in the treatment of income earned abroad by other Americans.

It is my understanding that Americans employed abroad by private enterprise are generally managerial or executive personnel, and that local nationals normally fill clerical and middle management positions. Federal agencies cannot follow this practice and assign many employees overseas in the middle and lower grades. The allowances paid these and other employees are important to assure that those who are directed (in the case of CIA) to serve abroad are not forced to absorb a financial burden in countries with a higher cost-of-living than that of the United States and to assure a standard of living consistent with requirements imposed upon them as representatives of the Federal Government abroad.



I am informed that two proposals are under consideration within the Executive Branch to deal with the overseas allowance question. One is to increase the allowances, and thus appropriations, to offset the taxes to be levied. The other, which deals solely with the housing allowance, would seek to establish a tax base figure equal to the amount an employee would reasonably be expected to pay for housing in the United States.

It is my view that in the long-run such adjustments would be burdensome and expensive to administer and inconsistent with the underlying concept of these allowances. They also could disrupt our efforts to reduce the number of personnel overseas and improve the efficiency of those who remain.

We are, of course, prepared to discuss both principles and procedures in much greater detail if that is necessary to demonstrate that the proposed changes would have a major adverse impact on the efficiency of our operations. I strongly urge the Administration to oppose a major change in the overseas allowance program at this time.

Sincerely,

/s/ Bill

W. E. Colby
Director

cc: Secretary of State
Secretary of the Treasury

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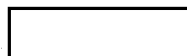
OLC/LLM:baa (4 Aug 75) (4151/9208)

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